



Market and Trade Data

Chinese Mooncake Mania May Offer a Golden Opportunity for U.S. Ingredients

By Evid Liu

China is in the grip of mooncake mania. Demand for these tasty delicacies is increasing during the traditional mid-autumn festival in mid- to late September. As incomes rise and corporations and individuals seek out ever-more generous gifts for this important festive season, families, friends, and professional associates are turning to these traditional treats. Mooncake manufacturers and retailers garnered sales of \$1.43 billion in calendar year 2006, up 17 percent from just the year before and a whopping 67 percent since 2003. This booming sales trend also represents a potentially golden opportunity for U.S. ingredient suppliers to China's domestic manufacturers in meeting demand leading up to the season — provided they can overcome some significant challenges.



Fancy mooncake package
Photos courtesy of the FAS Agricultural Trade Office, Guangzhou, China

Mooncakes Are Big Business

China's mooncake industry comprises filling manufacturers, cake producers, and retailers. The cakes are sold in supermarkets, bakeries, hotels, and restaurants. The industry has recently experienced an increase in vertical integration. For example, some filling makers are not only manufacturing mooncakes for hotels, restaurants, or food companies, but also developing their own brands. Similarly, some large producers have invested in their own in-house filling production facilities.

For Chinese bakers, the annual mooncake season is probably the most important part of the year. The commercial season begins in early July with presale promotion events, and peaks toward the end of August or early September. Sales in September typically reflect last-minute panic buying by consumers before the festival.

There are no nationwide leaders among Chinese mooncake manufacturers, but there are some regional leaders.

- Guangzhou Jiujia and Lian Xiang Lou are considered the major players in the southern provinces, although the region has many other producers with similar capacity.
- Xing Hua Lou and Guan Sheng Yuan dominate the eastern provinces.
- Dao Xiang Cun and Hao Li Lai are considered the number one and two producers, respectively, in the northern and northeastern provinces.

Domestic competition is fierce, with rival bakers and retailers employing aggressive



Hotel mooncake promotion

sales and promotion tactics. They invest heavily in mass marketing and elaborate packaging – even excessive packaging in some cases – for a chance to grab their share of the market.

Shifting Demands Mean Opportunities for U.S. Ingredient Suppliers

Traditional mooncakes have a crust of flour, lard, oil, and sugar. While fillings vary by regional styles and tastes in China's large, fragmented market, they are traditionally made of highly concentrated mixtures of lotus seed paste or bean paste with egg yolks, sugar, oil, fat and, in some cases, nuts and greasy meats.

However, consumers are increasingly concerned about unhealthy concentrations of fats and calories. In response to these concerns, and to give themselves a competitive advantage over their rivals, producers are exploring new mooncake recipes with a wider range of ingredients.

Healthier alternative recipes are gaining in popularity, particularly in cities like Guangzhou, Shenzhen, Shanghai, and Beijing, where there are large populations of high-income earners. Across the country, middle- and upper income consumers tend to be more open to innovative and healthy filling options. It is this emerging trend that offers U.S. ingredient suppliers their best opportunities.

High-quality, healthy alternative ingredients with nutritional benefits are good selling points for U.S. suppliers. Dried or processed fruits, nuts, and mild cheeses have good potential since they offer health benefits. U.S. ingredients such as cranberries and almonds have been creatively mixed with conventional lotus seed paste or multiple types of nuts.

Other nontraditional mooncake varieties that have enjoyed recent success include chocolate, green tea, and fruit-flavored wintermelon purée. Pricey ingredients such as shark fin, bird's nest, and abalone have also been incorporated into fillings to catch the high-end market. Tapping into this trend, Starbucks launched a coffee-flavored mooncake, and Haagen-Dazs, an ice-cream product.

For U.S. ingredient suppliers, working with larger Chinese filling makers with strong product development capabilities would be a recommended first step to test their products in a cost-

However, price sensitivity, and food safety and quality requirements, pose significant challenges to U.S. suppliers.

effective way. At the same time, this approach would provide a platform through which U.S. suppliers could:

- educate both filling makers and mooncake manufacturers about innovative products;
- gain access to technical expertise on traditional filling styles and production practices;
- develop ingredient descriptions in Chinese; and
- cooperate with local experts to develop recipes that best suit local consumers' palates and interests.

U.S. Associations Have Promoted U.S. Potato Flakes and Dried Plums in Mooncakes

A number of U.S. ingredients have been used with conventional ingredients to make mooncakes, thanks to collaboration between U.S. commodity associations and Chinese industry.

Potato Flakes: About four years ago, the National Potato Promotion Board, doing business as the United States Potato Board, conducted a study in Guangdong — where the mooncake industry is very keen to explore new ingredients — on using potato flakes in mooncake crust and fillings.

The crust with potato flakes had good taste and flavor; however, use of potato flakes in this application has been rare. For the industry, it is not commercially viable, while for consumers, the most attractive part of a mooncake is the filling, not the crust.

Lotus seed paste, the most popular mooncake filling, is pricey, so using potato flakes as a partial filler while retaining the lotus seed paste flavor could have been a cheaper option. But soon after the study, China instituted a requirement that prohibits any mixed lotus seed paste fillings to be labeled "lotus seed paste mooncake," reducing the attractiveness of potato flakes for the industry. This requirement would not affect mooncakes with ingredients not meant to be used as a substitute filler for lotus seed paste. For example, cranberry



Mooncake filling ingredients, left to right: white beans, lotus seeds, and red beans

mooncakes would not be advertised as lotus seed paste mooncake. Also, it's difficult to sell mooncakes filled with potato flakes and lotus seed paste as "potato mooncakes" at a price higher than pure lotus seed paste mooncakes, as potatoes are not perceived as a high-end ingredient.

Dried Plums: A couple of years ago the California Dried Plum Board worked with the mooncake industry to develop a mix of dried plums and conventional fillings for mooncake makers and filling makers. These mooncakes sold well because consumers appreciated their health attributes. Unfortunately, due to the short supply of dried plums in subsequent years, the Board discontinued promoting them in this market. However, China could still be a viable market if sufficient supplies become available.

Price Poses the Biggest Market Barrier

Comparatively high prices for U.S. ingredients limit their entry and expansion in China's lucrative mooncake market. Importantly, the more consumers perceive an ingredient as unique and high-end (like bird's nest), the more willing they are to pay premium prices.

Industry sources indicate that average profit margins are 15 - 20 percent for manufacturers, and a bit higher, say 25 - 30 percent, for retailers. Since 2005, producers have faced rising costs for materials, labor, transportation, and distribution, while the average price for traditional mooncakes (about \$12.50 for a box of four) has not kept pace with these costs. Consequently, producers have seen profit margins quickly diminish.

Mooncake manufacturers and filling makers are therefore open to using affordable new ingredients that add value. Even large producers are looking for opportunities as their traditional product range is eaten up by rivals employing aggressive

promotion strategies, as well as new entrants offering innovative recipes and styles.

Food Safety and Quality Requirements Present Technical Difficulties

Food safety concerns also significantly impact the market. In June 2006, China's national mandatory standard GB19855-2005, which regulates mooncake production and retail practices, became effective. The standard governs the quality of ingredients, use of additives in the manufacturing process, storage, and distribution.

Under the new standard listed above, mooncakes must have a shelf life of not less than 25 days at room temperature, except for those needing cold temperatures such as ice cream mooncakes. This requirement is feasible for conventional fillings, such as lotus seed paste, that have a high sugar content that ensures a long shelf life. But for low-sugar fillings, it presents a distribution and retail logistics issue that requires careful attention. Another technical challenge is maintaining the traditional mooncake shape with new ingredients, such as fruits.

This standard also limits mooncake packaging:

- the cost of the package cannot exceed 25 percent of the ex-factory price – the price at which mooncake makers sell to distributors or large retailers at bulk volume; and
- the size of the package per kilogram (1 kilogram = 2.2046 pounds) cannot exceed 927 cubic centimeters.

The industry believes the limit on package costs will not have much impact. However, the limit on package dimensions will certainly eliminate over-sized packages and thereby indirectly refocus industry operators, especially those who target high-end market niches, on the mooncakes themselves.

Since Oct. 1, 2007, mooncake and filling producers must also pass strict food quality and safety inspections to gain QS (quality and safety) certification. Without QS certification, producers cannot make or sell their products. This measure may eliminate small- and medium-sized operators that do not operate with high quality controls.

China is also drafting a new national quality standard for mooncake fillings to provide guidelines on pesticide residues, antibiotics, heavy metals, and key additives such as sugar substitutes, colorings, and preservatives. Finally, one of the two leading baking associations in the country, the All China Baking Association, has initiated a campaign encouraging its members to sign a commitment to promote quality and safety standards among members and suppliers.

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